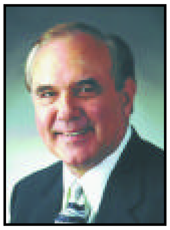

Senator Robert D. Garton

serving district 41: bartholomew and johnson counties

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Local Option Income Tax Proposal

This week, members of the Senate Tax and Fiscal Policy Committee considered a proposal to fund future growth of local government out of a local option income tax rather than property taxes.

Property taxes have grown considerably for all classes of taxpayers over the last 20 years, and are an outdated mechanism for taxation in many regards. They are not levied on ability to pay, but are levied on unrealized wealth. This creates particular problems for senior citizens living in long-held homes and who have a fixed income. It has created a burden on farmers, and it is a drag on new home purchases by young families and new business investment.

The plan requires that counties, through the representative council of the cities, towns, counties, and school districts, would vote this summer on whether to plan their local budgets with this funding mechanism. Currently, local units of government are permitted to grow their budgets on a rolling six-year average of the increase in Non-Farm Personal Income, and to do this, they generally increase property taxes.

Under the new plan, the controls on growth are retained, but local units are encouraged to use the income tax to fund it, instead of using the property tax. If a county opts to fund future growth in budgets with income taxes, employers would begin withholding taxes, and the taxes would be returned to the counties in March 2006, and on a monthly basis thereafter. The plan would take effect on Jan. 1, 2006, with respect to local budgets for calendar year 2006.

Going to an income tax allows taxation based on ability to pay. The current local income tax utilized by most counties is 1 percent or less. The measure requires certification by the state of the maximum growth permitted by an additional local option income tax each year. The units would then prepare their budgets, and a final rate would be set.

It is estimated by the nonpartisan Legislative Services Agency that most counties would start with a tax rate of less than 0.5 percent. That rate could grow to 1 to 1.2 percent by 2011. How fast the rate actually grows in each county will be determined by the natural rate of income tax growth and the rate of spending growth in each county. Over that period, property taxes to fund operating expenses for schools and local government would not increase. The new income tax rate would be capped at about 1.2 percent.

The program requires a rainy day fund to be set aside to protect each school and civil unit of government against economic downturns. In addition, if units spend less than the full growth increase permitted, that money could be used in four ways: for across the board property tax relief; for the rainy day fund; to create an additional local homestead credit; or to create an additional local property tax replacement credit (local PTRC) for all taxpayers eligible for the state PTRC.

Increased property taxes have become a problem even for the state budget. The state currently pays $2.2 billion in PTRC, and that sum is growing each year. When local governments increase their budgets on property taxes, it automatically increases the state share. The state passed a 1 cent increase in sales tax to cover this in 2002, but the growth has been so rapid that the $850 million raised through that approach is insuffi-

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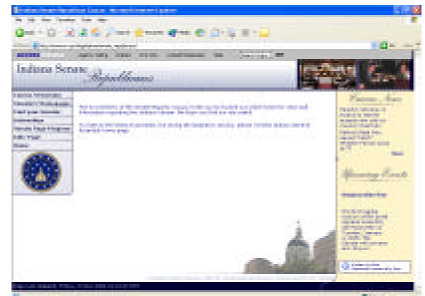

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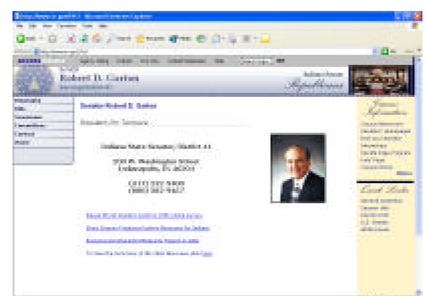

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Contact State Senator Bob Garton

200 West Washington Street
Indianapolis, Indiana 46204
Toll Free: (800) 382-9467
(317) 232-9400

S41@in.gov

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cient. The state's liability has increased more than $1.1 billion since that enactment. The PTRC is the second largest item in the state budget, surpassed only by spending for K-12 education. It has grown at a rate in excess of 5 percent annually in recent years.

Under the plan, the state will continue to pay property tax relief at the 2005 level. If a local government continues to rely on property taxes instead of the local option income tax, the full amount of the increase will be passed on to property tax payers with no additional PTRC beyond the amount received in 2005. This provides an incentive for local government to use income taxes, and it keeps the state budget from being increased based on local property tax increases.

This is a major restructuring of taxes for local government and will be beneficial for all taxpayers, as we move to a system more directly based on ability to pay, simpler to administer, that will return funds more rapidly to local units for their budgets, and that will be a more honest and transparent method of funding. It will take work and planning for local government to implement these changes, but it should provide needed flexibility by adding choices in methods of funding. The tax that is deemed to be the most appropriate method of funding can be exercised by local government.

Funding the Colts Stadium and Convention Center

The Senate Tax and Fiscal Policy Committee also heard another major proposal this week that could fund a new Indianapolis stadium and an expanded Indiana Convention Center.

Not only is a new stadium good for our Colts, but as a venue for many other activities. Last year, more than 1.3 million people visited the stadium for entertainment activities of all kinds. We expect the new stadium to attract even more events and activities.

Sen. Luke Kenley's plan involves private funding, state funding, and local funding. It places financial responsibility on those who use the facilities, those businesses in the nearby area who benefit from the facility, those who live in the community and benefit from its vibrancy, and the state as a whole, which benefits economically from the activities created by the facilities.

Although Mayor Peterson, the Capital Improvement Board and the Colts have worked hard to develop a consensus, their initial proposal did not involve the Legislature or the governor. Since most of the funds raised came from state resources, and require state approval, in essence, there is no plan until the Legislature and governor approve the use of those resources, and have an opportunity to evaluate the efficacy of the plan and project. Should the Mayor choose, resources currently available could be used without state approval. If the state is to participate in funding, it has an obligation to evaluate the use of state dollars on behalf of all Hoosiers, which is the responsibility of the General Assembly.

The primary source of funding for the proposal is a 1 percent local option sales tax on services in Marion County, excluding medical and construction services, which could be enacted by the Indianapolis City County Council. Marion County, as home of the capital city and many large service providers such as law firms, financial services, engineering, architects, and consulting firms provides about 1/3 of all such services across the state, twice its population share. In addition, such service providers, along with service providers to dome and convention center activities, use these facilities in their businesses. Since many such services are purchased by Central Indiana and out-state residents, the tax burden will be shared by a large base, one which benefits from a successful metropolitan area. The cost to an individual buying a $10 haircut is 10 cents. The cost on $1,000 of legal services is $10. This makes the tax a broad based low rate tax.

Additional sources of funds are those recommended by the mayor, but add a $1 stadium tax for all stadium events, and a 1% increased tax rate on professional athletes playing at the stadium or Conseco Fieldhouse.

The Colts are asked to pay a greater share, more in line with traditional team investments throughout the NFL. They are asked to pay, in addition to the $52 million already committed, $5 million per year during the 20-year term of the bond. This $5 million may be paid in cash, or through renegotiating some of the present terms of the agreement regarding rent, naming rights, concession rights, etc.

The bonds shall be paid over 20 years, rather than the mayor's suggestion of 30. This will save money, and be more in line with the life of the convention center and stadium. The convention center has been subject to regular renovations, and the current stadium was built 20 years ago.

Other changes would give the state a seat on the CIB with respect to this project, require that no personal seat licensing be used, and require that 5,000 non-scalpable low price tickets be available on a single game basis to the general public.